

May 19, 2004

**Statement
of
The Honorable Gwendolyn Sykes Brown
Chief Financial Officer
National Aeronautics and Space Administration**

before the

**Subcommittee on Government Efficiency and Financial Management
Committee on Government Reform
U. S. House of Representatives**

Mr. Chairman and Members of the Subcommittee, I am here this afternoon to report on the current state of NASA's efforts to improve its financial management capabilities. As stated during my confirmation hearing last November, I accepted the appointment of Chief Financial Officer to specifically focus on enhancing NASA's financial management operations and help restore fiscal discipline and credibility to our Agency.

NASA was implementing, in planned phases, the Core Financials module throughout Fiscal Year 2003. This is a commercial, off-the-shelf, Agency-wide, accounting module which is part of an integrated Enterprise Resource Planning (ERP) software suite of applications acquired from SAP. The implementation of the Core Financials module and other related software applications is part of the Agency's Integrated Financial Management Program (IFMP).

In Fiscal Year 2000 NASA initiated a seven year agency-wide effort aimed at providing a single, integrated suite of financial, project, contract and human capital management tools. Mr. Patrick Ciganer, NASA's Program Executive Officer for Integrated Financial Management, manages this effort. Mr. Ciganer and I report directly to the NASA Administrator. I thank you for allowing him to join me at this hearing and to provide his insights on the deployment of the Core Financials module during 2003 and the overarching Integrated Financial Management Program.

Implementation of the Core Financials module in Fiscal Year 2003 enabled our adoption of full cost accounting for Fiscal Year 2004. During this process the Agency converted many disparate, brittle and often incompatible accounting systems and sub-systems into a single financial execution system. Nevertheless, implementation of the Core Financials module was only the first step in our effort to build an integrated budget planning and execution environment and improve our overall financial management practices. Development and testing of a single budget formulation tool due for final deployment at the end of this calendar year is also part of the Integrated Financial Management Program. These two new tools, coupled with our forthcoming planned implementations of Integrated Project and Asset Management, Contract Management, Human Capital, and enhanced, real-time, web-based internal reporting and analytical capabilities, will give NASA the ability to better manage, track and report not only on its finances, but its projects and programs, assets and human capital resources.

I would like to also mention that external recognition of our current progress in improving overall management performance was acknowledged a short time ago when NASA was selected as one of only two Agencies in the Federal Government to receive an award under the President's Management Agenda (PMA) for its achievements in Budget and Performance Integration. NASA also made significant advances in regards to human capital, competitive sourcing and e-Gov initiatives. Unfortunately, due to the transition to our new accounting system, and the migration and validation of twelve years of accounting data, the Agency was unable to prepare timely financial statements; therefore, under the PMA financial management performance rating, NASA has not yet achieved any progress.

As mentioned earlier, our Core Financials module replaced 10 disparate main Center accounting systems and over 120 ancillary subsystems in operation throughout NASA for the past two decades. This conversion effort required some very complex data cleanup in addition to increased adjustment and reporting work at the end of fiscal year 2003. These activities significantly impacted the timeliness and initial quality of the information required in preparing NASA's interim and year-end financial statements.

Given the conversion to the Core Financials system, and based on "best practices" lessons learned, NASA had anticipated that its fiscal year 2003 audit was going to be an especially challenging time for its external financial reporting activities. The conversion required the Agency to use "blended" data from each Center's legacy accounting system and the new SAP Core Financials system to prepare its consolidated Fiscal Year 2003 financial statements for its auditors.

That conversion was far from straightforward. The volume (in some contractual instances, converting and validating 12 years worth of data) and the quality of the legacy data to be converted and upgraded to a much higher level of detail for future financial analysis and planning purposes, was very significant. The closing of our Fiscal Year 2003 books was a process that required our auditors to review data existing in both our legacy accounting systems and its individual "crosswalk" to our new integrated system. This was due to our selected conversion approach that divided the new system rollout in three "waves" to mitigate the initial deployment risks that were identified in the Agency's two prior failed attempts by creating more manageable set of system conversion tasks. This meant that a significant portion of the information to be audited per individual center had to be captured, stored, reported and reviewed from a combination of old and new systems.

Even with this phased conversion approach, NASA underestimated the amount of data that had to be identified, validated, documented and adjusted during our fiscal year end closing process. Additionally, many NASA personnel were faced with the task of creating and processing those adjustments in a new environment within a very short time frame. The result was \$565 billion in posted adjustments to the new module. This figure reflects year-end "absolute" dollar value adjustment records, which we processed and gave to the auditors. This amount is the sum of many consequent-correcting entries, often for a single posting, logged by the internal tracking control function of our new system. In the past, the Agency had been cited for failing to implement adequate internal controls in its contract management activities. The new system is configured not to allow direct reversal and erasure on wrongly posted entries, but rather requires

the use of a formal accounting series of steps (e.g., Credit-Debit, Credit-Debit) for any reversal and logs every single step in an absolute value running total.

For example, early in the year, a very large (>\$30 billion total to date), multi-center, eleven year old contract was initially booked in the wrong center. Reversing this posting, in addition to the initial credit of \$30 billion to the wrong center, required debiting that account for \$30 billion, and crediting the \$30 billion amount to the correct center. The system correctly recorded and reported three \$30 billion entries, totaling in this instance \$90 billion in our running total adjustment log. Unfortunately, in a system conversion of this magnitude you will encounter mispostings to your new environment. However, SAP's new internal control subsystem provided us with a tracking mechanism for accurately identifying and correcting those mispostings. A combination of human error and complex conversion procedures resulted, in several instances, in multiple re-postings, which was exacerbated by poor subsequent documentation. Additionally, the production of our Agency Financial Statements was based upon a significant volume of adjustments, which our auditors were not able to satisfactorily review before the Audit opinion was required to be issued.

In summary, our new system incorporates a series of internal controls that, for all adjustments, whether caused by a mathematical mistake, a fact-of-life programmatic change, or a mistake while learning how to use the new system, requires numerous additional transactions to undo and correct. Added to the equation in deploying a new system throughout most of FY 2003 was the conversion of 12 previous years of data plus the addition of new financial details related to contracts not contained in the legacy financial systems. Thus, the multiple entries required by a newly deployed system to post the past 12 years of data and meet all current auditing and financial management requirements, resulted in large dollar adjustment totals for Fiscal Year 2003.

To emphasize the accounting nature of the \$565 billion issue, and to put it in perspective, NASA's total appropriations since inception in 1959 through 2003 were \$227 billion.

We were aware of the added complexities of deploying the Core Financial module and initially briefed the OIG and its auditors, PriceWaterhouseCoopers, in early March 2003, on our strategy and plans for supporting the forthcoming 2003 audit effort and preparing our consolidated financial statements. To better support the unique legacy/new system integration requirement for Fiscal Year 2003, NASA needed to replace its existing manual reporting environment for the preparation of its consolidated financial statements, which simply extracted data from various legacy systems, and instead selected to use consolidated financial statement templates consistent with guidance issued by the Department of the Treasury and the Office of Management and Budget.

NASA had hoped to produce its Financial Statements as close to November 15th as possible. This was to be a "dry run" for us in preparation of the mandatory OMB requirement to produce a set of statements each year by that date, beginning with fiscal year 2004. However, operating our new system for the first time so close to our fiscal year end, surfaced several software, adjustment and internal control issues that did not appear in our previous yearlong pre-conversion and operating test environment. Best practices indicate that no matter how long you test a system in simulated conditions, nothing replaces the knowledge and experience you gather once you deploy and use a new system under real operating conditions. We could have waited another one or two years to try to preemptively identify and correct more weaknesses and issues.

The Agency made the decision to move forward sooner rather than later and we believe that this decision, in retrospect, was still the correct one even if it resulted in an audit disclaimer. The Agency needed to take its first bold step now towards improving its long-term financial management health.

Although it resulted in an audit disclaimer, the conversion and related data validation and clean-up process was one of the anticipated long-term benefits of migrating to a new, single, integrated financial execution system. Our long-term financial management improvement plan has to start with the generation and access to transparent, reliable and accurate financial information. The past year's effort in this arena is a significant step in the right direction.

We continue to appreciate the efforts of the Office of Inspector General (OIG) working with their external Auditors and the General Accounting Office in guiding the Agency towards improved financial management. As the Chief Financial Officer (CFO) of NASA it is disturbing to receive a disclaimer of an audit opinion. However, it helps underscore the significant amount of work and challenges facing my financial management team in 2004 - a challenge we accept willingly.

Our colleagues from GAO, sitting with me at this table, produced several reports last year describing in detail some of those challenges and provided their recommendations to meet them. NASA unconditionally endorsed those recommendations and is, as we speak, implementing them – each and every one of them. Some will take longer than others to be fully implemented, but, we are unwavering in our commitment to the long-term financial health of our Agency

Finally, I would like to state that our recent disclaimer was a much-needed wake-up call for many financial managers at NASA. It emphasized the fact that people, not automation alone, make the difference in moving forward successfully and that aiming at garnering clean opinions rather than addressing the long-term financial management issues besetting us is not the right way to move forward. In the past the Agency has been adept at solving individual audit issues rather than focusing on providing a solid financial management policy and implementing durable processes and procedures which will reform the Agency's financial management practices for the long run. In my view, a clean opinion should reflect a reliable, transparent and efficient set of financial management practices. It should not, in itself, be a goal, but rather a reflection of those practices. This past audit reinforced the need to further improve not only our processes and the integrity of our existing data, but also our internal controls, structure, and organization.

Our financial remediation plan and the recent formation of an external Audit committee, composed of experts from outside the Agency, are some of the immediate measures we have already taken to address and implement the recommendations from our audit and oversight community.

As I stated in the beginning, we are on the road to improved financial management but, are by no means, anywhere near the end of that journey.

I thank you for the opportunity to present to you our financial status and am ready to address the Subcommittee's questions.